BELLSOUTH

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September 9, 1992

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Donna A. Searcy
Secretary
1919 "M" Street N.W., Room 222
Washington, D.C. 20554

RE: CC Docket NO. 92-101

Dear Ms. Searcy:

Today, Francis Dennis, Pat Major, Bob Scheye, Maury Talbot and the undersigned, all representing BellSouth, met with Chris Frentrup and Michael Mandigo of the Common Carrier Bureau's Tariff Division to discuss BellSouth's positions and data in connection with the above referenced proceeding. The attached material was used during this meeting.

Please call me if you have any questions.

Sincerely,

W W Jordan

W.W. (Whit) Jordan
Director - Federal Regulatory

Attachment

CC: Chris Frentrup
Michael Mandigo

No. of Copies rec'd 0+1
List A B C D E

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BELLSOUTH'S IMPLEMENTATION STRATEGY

1. WRITTEN PLAN

- BellSouth did not think that it was appropriate for BellSouth to account for a substantive plan.

- Accounting for the substantive plan would have resulted in a substantially higher revenue requirement amount.

2. ONE TIME EXOGENOUS EVENT

- A one time exogenous adjustment better reflects the price cap concept.

- The risks and rewards associated with the price cap plan are inherent in the manner in which BellSouth calculated its incremental amount as well as in its SFAS 106 implementation approach.

  - The current accounting amount used in calculating the incremental impact of adopting SFAS 106 is on a 1993 basis. Consequently, the difference between what was expensed in 1990 (actual expenses embedded in our initial price cap rates) and 1993 will have to be absorbed by BellSouth.

  - Any future increases in SFAS 106 costs will, likewise, have to be absorbed by BellSouth.

3. PRE-FUNDING

- BellSouth began pre-funding for future retiree claims in 1985.

- The fact that we pre-funded reduces our SFAS 106 costs in two ways. 1) As previously discussed, the ABPO is reduced by accumulated assets at implementation which results in a smaller TBO. In addition, 2) the return on trust assets is netted against the annual net OPEB cost.

- BellSouth's estimate of 1993's current accounting amount is less than the SFAS 106 amount which indicates that our current method of accounting did not yield a greater expense amount than is appropriate under SFAS 106.

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DISCUSSION OF DOUBLE COUNT ISSUE

BellSouth believes that double counting is not an issue for the following reasons:

1. Although long-term inflation is included in the medical trend rate, anticipated inflation is also embedded in the discount rate. Discounting the expected benefit stream to present value using a long-term nominal rate that includes anticipated inflation effectively removes inflation from the calculated accrual. Consequently, inflation will only be obtained through the GNP-PI adjustment.

2. The very conservative approach used in the Godwin's study more than eliminates any double count that might exist from SFAS 106 costs already being reflected in the GNP-PI. In making decisions related to the development of the final study results, Godwins always decided in favor of the ratepayer.

3. The concern about the appropriateness of the TBO being subjected to inflation and a company's productivity are unwarranted. These concerns apparently stem from the misconception that the TBO is a fixed amount. However, the ongoing adjustments to actuarial assumptions reflected in gains/losses as well as increases in benefits reflected in prior service cost amounts partially relate to the TBO also. Therefore, in reality, the TBO is not fixed. For ease of administration, the FASB does not require the TBO to be adjusted but rather requires that these adjustments be made prospectively.

4. A company that has been pre-funding will not double count. The SFAS 106 calculation requires that, in calculating the initial SFAS 106 amounts (amounts at implementation), previously expensed amounts be used to reduce the APBO at implementation in determining the appropriate TBO amount.

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SUMMARY OF MAJOR POINTS

1. The mechanics of SFAS 106, the method used to determine the incremental exogenous amount and the use of the results of the Godwins study in determining our exogenous cost amount eliminates any double counting.

2. The combination of BellSouth's pre-funding and use of the written plan results in a small incremental exogenous cost amount.

3. A one time exogenous adjustment is more in keeping with the concept of incentive regulation. The costs of future increases in benefits will have to either be managed by or absorbed by BellSouth.

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LEC Data for Use in CC Docket No. 92-101
FCC Investigation Regarding SFAS 106

1993 CALENDAR YEAR

SFAS 106 Amounts (In Millions)	Total Company	Interstate Amount
A. Service Cost	$ 31	
B. Interest Cost	198	
C. Return on Plan Assets	82	
D. Amortization of TBO	63	
E. SFAS 106 accrual (A+B-C+D)	210	$ 38
F. Claims Payments to Retirees	25	
G. VEBA Contributions	166	
H. Other	0	
I. Total Current OPEB Costs (F+G+H)	191	36
J. Total OPEB Expense for Period of Initial Price Cap Rates	$ 181	33
K. Interstate Exogenous Cost Included Direct case Filing (1)		$ .752

(1) Incremental Revenue Requirement Amount times 84.8%

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1993 CALENDAR YEAR

Substantive Approach

SFAS 106 Amounts (In Millions)	Total Company	Interstate Amount
A. Service Cost	$ 52	
B. Interest Cost	246	
C. Return on Plan Assets	84	
D. Amortization of TBO	89	
E. SFAS 106 accrual (A+B-C+D)	303	$ 54
F. Claims Payments to Retirees	25	
G. VEBA Contributions	166	
H. Other	0	
I. Total Current OPEB Costs (F+G+H)	191	36
J. Total OPEB Expense for Period of Initial Price Cap Rates	$ 181	33
K. Interstate Exogenous Cost Under Substantive Plan (1)		$ 13.6

(1) Incremental Revenue Requirement Amount times 84.8%